



IMMEDIATE RELEASE

CALIAN REPORTS SECOND QUARTER RESULTS

(All amounts in this release are in Canadian Dollars)

Ottawa, May 14, 2019 - Calian Group Ltd. (TSX:CGY) today released unaudited results for the second quarter ended March 31, 2019.

Second quarter 2019 highlights:

- Revenue at \$83.4 million, representing Calian's third consecutive quarter of record revenue
- EBITDA⁽¹⁾ of \$6.6 million
- 70th consecutive profitable quarter
- New contract signings of \$82 million
- Dividend of \$0.28/share

The Company reported revenues for the quarter of \$83.4 million, representing a 7.8% increase from the \$77.4 million reported in the same quarter of the previous year. For the six-month period ended March 31, 2019 the Company reported revenues of \$163.3 million, a 6.4% increase compared to revenues of \$153.5 million in the prior year.

EBITDA⁽¹⁾ for the second quarter was \$6.6 million or \$0.84 per share basic and diluted, which increased when compared with the \$6.1 million or \$0.79 per share basic and \$0.78 per share diluted in the same quarter of the previous year. On a year-to-date basis, EBITDA⁽¹⁾ was \$12.3 million or \$1.57 per share basic and \$1.56 per share diluted, a decrease compared to the \$12.6 million or \$1.64 basic and \$1.62 diluted in the prior year.

Net profit for the second quarter was \$3.9 million or \$0.50 per share basic and \$0.49 per share diluted, consistent with the \$3.9 million or \$0.51 per share basic and diluted in the same quarter of the previous year. On a year-to-date basis, net profit was \$7.2 million or \$0.93 per share basic and \$0.92 per share diluted, a decrease of 11.1% compared to net profit of \$8.1 million or \$1.05 per share basic and \$1.04 per share diluted in the prior year.

"Our profitable growth agenda has continued this quarter, having now set revenue records for three consecutive quarters," stated Patrick Houston, CFO. "Our BTS division has continued its strong performance with revenue growth of 14% compared to Q2 of the previous year, while our Systems Engineering Division has continued to build capacity to deliver on its backlog of programs in the coming quarters. We also increased EBITDA by 15% compared to the previous quarter, which included non-recurring costs of \$0.6 million related to our acquisition of SatService on April 1, 2019. On a year to date basis, EBITDA is slightly down due to increased operating expenses from recent acquisitions and additional investments."

"The strength of our diversity was evident this quarter as our BTS division continued its revenue and EBITDA growth, led by our Health group," stated Kevin Ford, CEO. "Our customer retention focus was evident again this quarter with multiple new contracts and extensions with existing customers in our training, IT and satellite services totaling \$82 million," added Ford. "We are also very excited about our recent announcements related to Calian's Systems Engineering Division (SED), namely our acquisition of Germany-based SatService, Calian's first international acquisition, as well as release of a new line of advanced medium and large aperture radio frequency (RF) antennas with cutting-edge performance for the most demanding satellite system applications."

(1) Caution regarding non-GAAP measures:

This press release is based on reported earnings in accordance with IFRS. Reference to generally accepted accounting principles (GAAP) means IFRS, unless indicated otherwise. This press release is also based on non-GAAP financial measures including EBITDA, adjusted net profit and adjusted net profit per share. These non-GAAP measures are mainly derived from the interim consolidated financial statements, but do not have a standardized meaning prescribed by IFRS; therefore, others using these terms may calculate them differently. Management believes that providing certain non-GAAP performance measures, in addition to IFRS measures, provides users of our financial reports with enhanced understanding of our results and related trends and increases transparency and clarity into the core results of our business. Refer to the MD&A for definitions of these metrics and reconciliations to the most comparable IFRS measures.

“We see SatService, as another growth avenue for Calian SED as SatService brings a talented team with new products and customers. This acquisition supports the customer diversification and service line evolution pillars of our growth strategy by bringing new innovations and products in our satellite communications business while increasing our capacity for growth in new customers located in the European region.”

“Our new carbon fiber antennas are the direct result of targeted R&D investments at Calian SED. They represent a significant achievement in the service line evolution pillar of our growth strategy, and I am looking forward to helping our global customers improve their satellite communications with this advanced technology. With the manufacture of these composite antenna systems right here in Canada at Calian SED’s Saskatoon manufacturing facility, I see this as a true demonstration of Canadian innovation and Calian’s innovation agenda,” stated Ford.

“At 70 consecutive profitable quarters, strong cash flows, a continued focus on our innovation agenda and a dedicated employee base, I am confident we will continue to make progress against all elements of our four-pillar strategic growth framework,” stated Ford.

Traditional markets in which Calian operates are stable and management expects organic revenue and earnings growth in most or all of its service lines through the successful execution of our growth strategy. However, we must caution that revenues realized are ultimately dependent on the extent and timing of future contract awards as well as customer utilization of existing contracting vehicles. Based on currently available information and our assessment of the marketplace, we expect revenues for fiscal 2019 to be in the range of \$330 million to \$360 million, EBITDA per share in the range of \$3.60 to \$3.90 and net profit in the range of \$2.05 to \$2.35 per share.

About Calian

Calian employs over 3,200 people with offices and projects that span Canada and global markets. The company’s capabilities are diverse with services delivered through two divisions. The Business and Technology Services (BTS) Division is headquartered in Ottawa and includes the provision of business and technology services and solutions to industry, public and government in the health, training, engineering and IT services domains. Calian’s Systems Engineering Division (SED) located in Saskatoon provides the world’s leading space technology companies with innovative solutions for testing, operating and managing their satellite networks. SED provides leading-edge communications products for terrestrial and satellite networks, as well as providing commercial (including agriculture) and defence customers with superior electronics engineering, manufacturing and test services for both private sector and military customers in North America and Europe.

For further information, please visit our website at www.calian.com, or contact us at ir@calian.com

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DISCLAIMER

Certain information included in this press release is forward-looking and is subject to important risks and uncertainties. The results or events predicted in these statements may differ materially from actual results or events. Such statements are generally accompanied by words such as "intend", "anticipate", "believe", "estimate", "expect" or similar statements. Factors which could cause results or events to differ from current expectations include, among other things: the impact of price competition; the dependence on new product development; the impact of rapid technological and market change; the ability of Calian to integrate the operations and technologies of acquired businesses in an effective manner; general industry and market conditions and growth rates; international growth and global economic conditions, particularly in emerging markets and including interest rate and currency exchange rate fluctuations; and the impact of consolidations in the business services industry. Additional risks and uncertainties affecting Calian can be found in Management’s Discussion and Analysis of Results of Operations and its Annual Information Form for the fiscal year ended September 30, 2018 on SEDAR at www.sedar.com. If any of these risks or uncertainties were to materialize, or if the factors and assumptions underlying the forward-looking information were to prove incorrect, actual results could vary materially from those that are expressed or implied by the forward-looking information contained herein and our current objectives or strategies may change. Calian disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. No assurance can be given that actual results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

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CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at March 31, 2019 and September 30, 2018
(Canadian dollars in thousands, except per share data)

	NOTES	March 31, 2019	September 30, 2018 <i>Restated</i> <i>(Note 2)</i>
ASSETS			
CURRENT ASSETS			
Cash		\$ 27,787	\$ 21,842
Accounts receivable		64,594	69,096
Work in process		19,397	17,377
Inventory	6	4,474	1,498
Prepaid expenses		4,906	3,879
Derivative assets	14	284	1,021
Total current assets		<u>121,442</u>	<u>114,713</u>
NON-CURRENT ASSETS			
Capitalized research and development		2,470	1,449
Equipment		10,802	9,795
Application software		992	788
Investment and loan receivable		452	435
Acquired intangible assets	16	13,289	6,702
Goodwill	16	25,981	18,236
Total non-current assets		<u>53,986</u>	<u>37,405</u>
TOTAL ASSETS		<u>\$ 175,428</u>	<u>\$ 152,118</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Line of Credit	8	\$ 17,000	\$ -
Accounts payable and accrued liabilities		32,163	33,841
Contingent earn-out	16	4,341	2,440
Provisions	7	1,678	1,932
Unearned contract revenue		8,034	10,042
Derivative liabilities	14	140	525
Total current liabilities		<u>63,356</u>	<u>48,780</u>
NON-CURRENT LIABILITIES			
Contingent earn-out	16	3,483	800
Deferred tax liabilities		3,972	2,488
Total non-current liabilities		<u>7,455</u>	<u>3,288</u>
TOTAL LIABILITIES		<u>70,811</u>	<u>52,068</u>
SHAREHOLDERS' EQUITY			
Issued capital	9	31,405	28,647
Contributed surplus		1,237	1,065
Retained earnings		73,277	70,521
Accumulated other comprehensive loss		(1,302)	(183)
TOTAL SHAREHOLDERS' EQUITY		<u>104,617</u>	<u>100,050</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>\$ 175,428</u>	<u>\$ 152,118</u>
Number of common shares issued and outstanding		<u>7,878,838</u>	<u>7,764,762</u>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET PROFIT
For the three and six-month periods ended March 31, 2019 and 2018
(Canadian dollars in thousands, except per share data)

	NOTES	Three months ended March 31, 2019	Three months ended March 31, 2018 <i>Restated</i> <i>(Note 2)</i>	Six months ended March 31, 2019	Six months ended March 31, 2018 <i>Restated</i> <i>(Note 2)</i>
Revenues	11	\$ 83,414	\$ 77,375	\$ 163,335	\$ 153,544
Cost of revenues		66,432	62,589	130,632	123,958
Gross profit		16,982	14,786	32,703	29,586
Selling and marketing		1,423	1,258	2,966	2,500
General and administration		7,691	6,259	14,889	12,188
Facilities		1,305	1,193	2,598	2,330
Profit before under noted items		6,563	6,076	12,250	12,568
Depreciation		540	414	1,035	826
Amortization of intangibles		422	299	702	598
Profit before interest and income tax expense		5,601	5,363	10,513	11,144
Accretion interest expense related to acquisitions		(237)	(23)	(379)	(47)
Interest income		23	65	55	135
Profit before income tax expense		5,387	5,405	10,189	11,233
Income tax expense – current		1,649	1,719	3,005	3,438
Income tax expense – deferred		(126)	(239)	(35)	(263)
Total income tax expense		1,523	1,480	2,970	3,175
NET PROFIT FOR THE PERIOD		\$ 3,864	\$ 3,925	\$ 7,219	\$ 8,058
NET PROFIT PER SHARE:					
Basic	10	\$ 0.50	\$ 0.51	\$ 0.93	\$ 1.05
Diluted	10	\$ 0.49	\$ 0.50	\$ 0.92	\$ 1.04

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and six-month periods ended March 31, 2019 and 2018
(Canadian dollars in thousands)

	NOTES	Three months ended March 31, 2019	Three months ended March 31, 2018 <i>Restated</i> <i>(Note 2)</i>	Six months ended March 31, 2019	Six months ended March 31, 2018 <i>Restated</i> <i>(Note 2)</i>
NET PROFIT FOR THE PERIOD		\$ 3,864	\$ 3,925	\$ 7,219	\$ 8,058
Other comprehensive income, net of tax					
Change in deferred gain or loss on derivatives designated as cash flow hedges, net of tax of \$326 and \$411 (2018 - \$257 and \$323)		890	(673)	(1,119)	(854)
Other comprehensive income, net of tax		890	(673)	(1,119)	(854)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		\$ 4,754	\$ 3,252	\$ 6,100	\$ 7,204

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the six-month periods ended March 31, 2019 and 2018
(Canadian dollars in thousands, except per share data)

	Notes	Issued capital	Contributed surplus	Retained earnings <i>Restated</i> (Note 2)	Cash flow hedging reserve	Total <i>Restated</i> (Note 2)
Balance October 1, 2018		\$ 28,647	\$ 1,065	\$ 70,521	\$ (183)	\$ 100,050
Total comprehensive income		-	-	7,219	(1,119)	6,100
Dividends (\$0.56 per share)		-	-	(4,360)	-	(4,360)
Share repurchase		-	-	(103)	-	(103)
Issue of shares under the employee share purchase plan	9	850	-	-	-	850
Issue of shares under the employee share option plan	9	1,908	(350)	-	-	1,558
Share based compensation expense	9	-	522	-	-	522
Balance March 31, 2019		\$ 31,405	\$ 1,237	\$ 73,277	\$ (1,302)	\$ 104,617

	Notes	Issued capital	Contributed surplus	Retained earnings <i>Restated</i> (Note 2)	Cash flow hedging reserve	Total <i>Restated</i> (Note 2)
Balance October 1, 2017		\$ 26,240	\$ 541	\$ 62,898	\$ (70)	\$ 89,609
Total comprehensive income		-	-	8,058	(854)	7,204
Dividends (\$0.56 per share)		-	-	(4,317)	-	(4,317)
Issue of shares under the employee share purchase plan	9	551	-	-	-	551
Issue of shares under the employee share option plan	9	1,219	(160)	-	-	1,059
Share based compensation expense	9	-	459	-	-	459
Balance March 31, 2018		\$ 28,010	\$ 840	\$ 66,639	\$ (924)	\$ 94,565

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three and six-month periods ended March 31, 2019 and 2018
(Canadian dollars in thousands)

	NOTES	Three months ended March 31, 2019	Three months ended March 31, 2018 <i>Restated</i> <i>(Note 2)</i>	Six months ended March 31, 2019	Six months ended March 31, 2018 <i>Restated</i> <i>(Note 2)</i>
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES					
Net profit for the period		\$ 3,864	\$ 3,925	\$ 7,219	\$ 8,058
Items not affecting cash:					
Interest income		(23)	(65)	(55)	(135)
Accretion interest expense related to acquisitions		237	23	379	47
Income tax expense		1,523	1,480	2,970	3,175
Employee share plans compensation expense		66	29	101	49
Share based compensation expense		303	175	503	459
Depreciation and amortization		962	713	1,737	1,424
		<u>6,932</u>	<u>6,280</u>	<u>12,854</u>	<u>13,077</u>
Change in non-cash working capital					
Accounts receivable		610	3,117	5,079	(2,777)
Work in process		(3,349)	(2,657)	(2,020)	(5,579)
Prepaid expenses		(1,374)	(86)	(973)	(426)
Inventory		(147)	247	(1,036)	(253)
Accounts payable and accrued liabilities		5,172	1,610	(1,339)	(2,049)
Unearned contract revenue		(44)	(1,770)	(2,008)	(1,124)
		<u>7,800</u>	<u>6,741</u>	<u>10,557</u>	<u>869</u>
Interest received (paid)		(69)	65	(36)	135
Income tax paid		(3,547)	(2,713)	(5,359)	(4,321)
		<u>4,184</u>	<u>4,093</u>	<u>5,162</u>	<u>(3,317)</u>
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES					
Issuance of shares	9	2,288	486	2,288	1,521
Dividends		(2,184)	(2,165)	(4,360)	(4,317)
Line of credit		5,000	-	17,000	-
Share repurchase		(37)	-	(118)	-
		<u>5,067</u>	<u>(1,679)</u>	<u>14,810</u>	<u>(2,796)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES					
Business acquisitions	16	-	(166)	(11,299)	(166)
Capitalized research and development		(529)	(88)	(1,023)	(420)
Equipment and application software		(1,312)	(503)	(1,705)	(1,016)
		<u>(1,841)</u>	<u>(757)</u>	<u>(14,027)</u>	<u>(1,602)</u>
NET CASH INFLOW (OUTFLOW)		\$ 7,410	\$ 1,657	\$ 5,945	\$ (7,715)
CASH, BEGINNING OF PERIOD		20,377	19,267	21,842	28,639
CASH, END OF PERIOD		\$ <u>27,787</u>	\$ <u>20,924</u>	\$ <u>27,787</u>	\$ <u>20,924</u>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

CALIAN GROUP LTD.
NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three and six-month periods ended March 31, 2019 and 2018
(Canadian dollars in thousands, except per share amounts)
(Unaudited)

1. BASIS OF PREPARATION

Calian Group Ltd. ("the Company") is incorporated under the Canada Business Corporations Act. The address of its registered office and principal place of business is 770 Palladium Drive, Ottawa, Ontario K2V 1C8. The Company's capabilities are diverse and include the provision of business and technology services and solutions to industry and government in the health, IT services and training domains as well as the design, manufacturing and maintenance of complex systems to the communications, agriculture and defence sectors.

These unaudited interim condensed consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). These unaudited interim condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with the accounting policies the Company adopted in its annual consolidated financial statements for the year ended September 30, 2018, except as per note 2 below, and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended September 30, 2018. These unaudited interim condensed consolidated financial statements do not include all of the information required in annual financial statements.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on May 14, 2019.

2. CHANGES IN ACCOUNTING POLICIES

IFRS 9 Financial instruments

IFRS 9 was issued by the IASB in November 2009 and October 2010, was amended in 2013 and finalized in July 2014 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 replaces the incurred loss model from IAS 39 by introducing a new 'expected credit loss' model for calculating impairment of financial assets. As a result of adopting the new standard, the Company expects earlier recognition of provisions for credit losses which are not yet incurred. IFRS 9 includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Company adopted IFRS 9 effective October 1, 2018 with no adjustments.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB released IFRS 15 *Revenue from Contracts with Customers*. The Standard replaces IAS 11 *Construction Contracts* and IAS 18 *Revenue*, providing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of the new standard is recognizing revenue to depict fulfillment of performance obligations to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. Revenue is recognized when, or as, the customer obtains control of the goods or services.

IFRS 15 was adopted effective October 1, 2018 and the changes have been accounted for retroactively in accordance with the transition rules of IFRS 15 using the retroactive approach. The following practical expedients were used on adoption:

- Completed contracts that begin and end within the same annual reporting period and those completed before October 1, 2018 are not restated
- Contracts modified prior to October 1, 2018 are not restated. The aggregate effect of these modifications is reflected when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligations.
- Recognition of revenue in the amount at which the Company has completed services to date for contracts where the Company has the right to consideration for such services.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

Revenue recognition

The accounting presentation for most of the Company's broad portfolio of service offerings remain largely unchanged, however, some impacts have been identified. Under the former standard, the Company recognized certain contract revenue in profit or loss in proportion to the stage of completion of the contract using the percentage of completion method. Under IFRS 15, revenue is recognized upon the satisfaction of the Company's performance obligations, which occurs when, or as, control of a good or service transfers to the customer. Control can transfer either at a point in time or over time. A small number of contracts that previously were recognized over time do not meet the criteria set out in the new standard for over time recognition and for those contracts, revenue will be deferred and recognized upon completion of the performance obligation. Costs to manufacture are recognized as inventory until delivery occurs. The impact of these changes resulted in a revenue increase for fiscal 2018 of \$118, and a cumulative increase to inventory of \$928 at September 30, 2018.

Warranty

Under the former revenue standards, for contracts having revenue recognized based on the stage of completion method, warranty costs were accounted for in a consistent manner with other costs incurred. As a result, costs were recognized as incurred and were included in the measure of progress of the contract. IFRS 15 classifies warranty into two groups, assurance type and service type.

Assurance type warranties are those that promise to the customer that the delivered product will function as intended and will comply with agreed-upon specifications. Assurance type warranty costs are recognized as a provision in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, based on the progress of the other performance obligations in the contract, and the provision recognized is reduced as costs are incurred or reversed if no longer required.

Service type warranties are those which the customer has the option to purchase the warranty separately or those which contain a service in addition to a standard assurance type warranty. Service type warranties give rise to a separate performance obligation within a contract and as a result, the Company recognizes revenue as the service is provided and incurs warranty costs over the satisfaction of the performance obligation.

The Company offers both types of warranties to customers which carry an impact to the classification and treatment under IFRS 15. The impact of warranty changes resulted in a revenue decrease for fiscal 2018 of \$7, and cumulative increase to provisions of \$1,365 at September 30, 2018.

The Company recognizes revenue from two types of contracts; cost-plus contracts and fixed-price contracts.

Cost-plus contracts represent revenue that is recognized as and when services are provided to the customer. These contracts are for professional services delivered over time to customers.

Fixed-Price contracts consist of the development and installation of hardware or software systems, and the sale of product manufactured for a specific customer. Fixed price contracts typically include a warranty which must be assessed as a service type of assurance type on a contract by contract basis. The cost is estimated based on a number of factors, including the historical warranty claims and cost experience, the type and duration of warranty coverage, and the nature of products sold. Warranties typically range from 6 months to 1 year but could be upwards of 3 years.

The following tables summarize the Company's retroactive restatements to its consolidated financial statements resulting from the adoption of IFRS 15 *Revenue from Contracts with Customers*, including the impact of reclassification.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

The impacts on the consolidated statements of comprehensive income and on the consolidated statement of changed in equity, net of income taxes, are as follows:

	As at September 30, 2018	As at March 2018	As at October 1, 2017
Equity as previously reported	\$ 99,714	\$ 94,318	\$ 89,487
Cumulative changes to:			
Warranty	509	343	220
Performance obligations previously reported over time now recognized at a point in time	(49)	(5)	(53)
Income tax impact	(124)	(91)	(45)
Net change to equity	336	247	122
Equity as restated	\$ 100,050	\$ 94,565	\$ 89,609

The impacts on the consolidated statements of financial position are as follows, as at:

	As previously reported	September 30, 2018		As restated
		Reclassification	Adjustments	
CURRENT ASSETS				
Cash	\$ 21,842	\$ -	\$ -	\$ 21,842
Accounts receivable	69,096	-	-	69,096
Work in process	18,217	(570)	(270)	17,377
Inventory	-	570	928	1,498
Prepaid expenses	3,879	-	-	3,879
Derivative assets	1,021	-	-	1,021
Total current assets	114,055	-	658	114,713
Total non-current assets	37,405	-	-	37,405
TOTAL ASSETS	\$ 151,460	\$ -	\$ 658	\$ 152,118
LIABILITIES				
Accounts payable and accrued liabilities	\$ 34,284	\$ (567)	\$ 124	\$ 33,841
Contingent earn out	2,440	-	-	2,440
Provisions	-	567	1,365	1,932
Unearned contract revenue	11,209	-	(1,167)	10,042
Derivative liabilities	525	-	-	525
Total current liabilities	48,458	-	322	48,780
Total non-current liabilities	3,288	-	-	3,288
TOTAL LIABILITIES	51,746	-	322	52,068
SHAREHOLDERS' EQUITY				
Issued capital	28,647	-	-	28,647
Contributed surplus	1,065	-	-	1,065
Retained earnings	70,185	-	336	70,521
Accumulated other comprehensive loss	(183)	-	-	(183)
TOTAL SHAREHOLDERS' EQUITY	99,714	-	336	100,050
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 151,460	\$ -	\$ 658	\$ 152,118

2. CHANGES IN ACCOUNTING POLICIES (Continued)

The impacts on the consolidated statements of income are as follows, for:

	Three-Month period ended March 31, 2018		
	As previously reported	Adjustments	As restated
Revenues	\$ 77,103	\$ 272	\$ 77,375
Cost of revenues	62,403	186	62,589
Gross profit	14,700	86	14,786
Selling and marketing	1,258	-	1,258
General and administration	6,259	-	6,259
Facilities	1,193	-	1,193
Depreciation	414	-	414
Amortization of intangibles	299	-	299
Profit before interest income and income tax expense	5,277	86	5,363
Interest income	65	-	65
Interest accretion expense	(23)	-	(23)
Profit before income tax expense	5,319	86	5,405
Income tax expense – current	1,696	23	1,719
Income tax expense – deferred	(239)	-	(239)
Total income tax expense	1,457	23	1,480
NET PROFIT FOR THE PERIOD	\$ 3,862	\$ 63	\$ 3,925
Earnings per share basic	\$ 0.50	\$ 0.01	\$ 0.51
Earnings per share diluted	\$ 0.50	\$ -	\$ 0.50

The impacts on the consolidated statements of income are as follows, for:

	Six-Month period ended March 31, 2018		
	As previously reported	Adjustments	As restated
Revenues	\$ 152,852	\$ 692	\$ 153,544
Cost of revenues	123,437	521	123,958
Gross profit	29,415	171	29,586
Selling and marketing	2,500	-	2,500
General and administration	12,188	-	12,188
Facilities	2,330	-	2,330
Depreciation	826	-	826
Amortization of intangibles	598	-	598
Profit before interest income and income tax expense	10,973	171	11,144
Interest income	136	-	136
Interest accretion expense	(47)	-	(47)
Profit before income tax expense	11,062	171	11,233
Income tax expense – current	3,392	46	3,438
Income tax expense – deferred	(263)	-	(263)
Total income tax expense	3,129	46	3,175
NET PROFIT FOR THE PERIOD	\$ 7,933	\$ 125	\$ 8,058
Earnings per share basic	\$ 1.03	\$ 0.02	\$ 1.05
Earnings per share diluted	\$ 1.02	\$ 0.02	\$ 1.04

3. FUTURE CHANGES IN ACCOUNTING POLICIES

IFRS 16 Leases

In January 2016, the IASB released IFRS 16 Leases which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. IFRS 16 is effective with the Company's annual periods beginning on October 1, 2019. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from those estimates.

There were no significant changes in estimates or approaches in the current period when compared to the estimates or approaches used to prepare the annual consolidated financial statements for the year ended September 30, 2018.

5. SEASONALITY

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. The Company's revenues and earnings have historically been subject to some quarterly seasonality due to the timing of vacation periods, statutory holidays, industry specific seasonal cycles and the timing and delivery of milestones for significant projects. IntraGrain and Secure Tech, two recent acquisitions generate a significant portion of their revenues during the second, third and fourth quarter of the Company's fiscal year.

6. INVENTORY

Inventories are recorded at the lower of cost or net realizable value. Cost is calculated based on the weighted average method. Write-downs are taken for excess and obsolete inventory and for a reduction in the carrying value of inventory to reflect realizable value based on current cost, production and sales estimates. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Inventories were as follows as at:

	March 31, 2019	September 30, 2018
		<i>Restated</i>
Raw materials	\$ 2,387	\$ 440
Work in process	873	756
Finished goods	1,214	302
	\$ 4,474	\$ 1,498

7. PROVISIONS

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated. These liabilities are presented as provisions when they are of uncertain timing or amount. Provisions are measured at their present value.

Changes in provisions for the six-month period ending March 31, 2019 were as follows:

	Product			Total
	Warranties ⁽¹⁾	Severance	Other	
Balance at October 1, 2018	\$ 1,365	\$ 414	\$ 153	\$ 1,932
Additions	162	261	-	423
Utilization/Reversals	(468)	(205)	(4)	(677)
Balance at March 31, 2019	\$ 1,059	\$ 470	\$ 149	\$ 1,678

(1) For description of product warranties, please refer to Note 2 with regards to changes in accounting policies due to IFRS 15.

8. LINE OF CREDIT

The Company has a revolving credit facility (“RCF”) in the amount of \$40,000 CAD available. The RCF is committed for a 364-day term with upcoming maturity at August 8, 2019, at which point it can be renewed for another 364-day term. At March 31, 2019 (2018), the Company utilized \$17,000 (NIL) of the RCF. The RCF is secured against the Company’s assets and is interest bearing at the Royal Bank of Canada’s Prime Rate.

9. ISSUED CAPITAL

Employee Share Purchase Plan

During the three and six-month periods ended March 31, 2019 (2018), the Company issued 28,941 (21,508) shares under the Company’s Employee Share Purchase Plan at an average price of \$24.65 (\$21.50). The Company received \$714 (\$462) in proceeds and recorded an expense of \$136 (\$89).

Stock options

The Company has an established stock option plan. Under the plan, eligible directors and employees are granted the right to purchase shares of common stock at a price established by the Board of Directors on the date the options are granted but in no circumstances below fair market value of the shares at the date of grant.

The weighted average fair value of options granted during the six-month period ending March 31, 2019 was \$3.96 per option calculated using the Black-Scholes option pricing model. Where relevant, the expected life of the options was based on historical data for similar issuances and adjusted based on management’s best estimate for the effects of non-transferability, exercises restrictions and behavioral considerations. Expected volatility is based on historical price volatility over the expected option life.

9. ISSUED CAPITAL (Continued)

To allow for the effects of early exercise, it was assumed that options would be exercised on average 2 years after vesting. The following assumptions were used to determine the fair value of the options granted between October 1, 2018 and March 31, 2019:

	November 2018	February 2019
Expected price volatility	22.7 %	23.7 %
Expected option life	4 yrs	4 yrs
Expected dividend yield	3.79 %	3.71 %
Risk-free interest rate	2.28 %	1.78 %
Forfeiture rate	0 %	0 %

The following table depicts the activity for the options during the six-month period ended March 31, 2019 and 2018.

	March 31, 2019		March 31, 2018	
	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Outstanding, beginning of year	247,400	\$ 25.43	240,600	\$ 20.10
Exercised	(81,200)	19.40	(53,300)	19.86
Forfeited	(5,000)	32.57	-	-
Granted	128,600	29.52	96,600	34.39
Outstanding, end of year	289,800	\$ 28.81	283,900	\$ 25.01

Restricted Stock Units

The Company has established a restricted stock unit ("RSU") plan. Under the plan, eligible employees are granted the right to shares of common stock as remuneration for services rendered to the Company. RSU's are granted by the Board of Directors and at the date of the grant, the market value is used to determine the fair value of the units. The RSUs vest over time in three equal annual tranches. The following table depicts the activity for the RSU's during the three and six-months ended March 31, 2019 and 2018.

	Three months ended March 31		Six months ended March 31	
	2019	2018	2019	2018
Beginning balance	48,796	17,306	20,970	11,345
Vested	(38)	-	(8,214)	(3,741)
Cancelled	(948)	-	(964)	(150)
Issued	675	4,655	36,693	14,507
Closing balance	48,485	21,961	48,485	21,961

10. NET PROFIT PER SHARE

The diluted weighted average number of shares has been calculated as follows:

	Three months ended March 31		Six months ended March 31	
	2019	2018	2019	2018
Weighted average number of shares – basic	7,803,234	7,722,425	7,785,792	7,698,904
Addition to reflect the dilutive effect of employee stock options and RSU's	54,700	75,412	85,198	82,504
Weighted average number of shares – diluted	7,857,934	7,797,837	7,870,990	7,781,408

Options and RSU's that are anti-dilutive because the exercise price was greater than the average market price of the common shares are not included in the computation of diluted earnings per share. For the three-month period ended March 31, 2019 (2018), 211,200 (96,600) options and NIL (4,100) RSU's were excluded from the above computation. For the six-month period ending March 31, 2019 (2018), 211,200 (96,600) options and 37,977 (13,952) RSU's were excluded from the above computation. Profit for the period is the measure of profit or loss used to calculate net profit per share.

11. REVENUE

The following table presents the revenue of the Company for the three and six-months ended March 31, 2019 and 2018:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018 <i>Restated</i>	2019	2018 <i>Restated</i>
Fixed price contracts	\$ 17,658	\$ 19,132	\$ 35,239	\$ 40,085
Cost-plus contracts	65,756	58,243	128,096	113,459
	\$ 83,414	\$ 77,375	\$ 163,335	\$ 153,544

12. RELATED PARTY

During the three and six month period ended March 31, 2019 (2018), the Company had sales of \$105 (NIL) and \$244 (NIL) to GrainX in which Calian holds a non-controlling equity investment. At March 31, 2019 (2018), the Company had an accounts receivable balance with GrainX of \$72 (NIL) which is included in accounts receivable.

The Company has certain office space leases with employees of the Company. The total amount of expense due to leases with related parties is \$101 (\$144) for the period ended March 31, 2019 (2018).

13. SEGMENTED INFORMATION

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, regarding how to allocate resources and assess performance. The Company's chief operating decision maker is the Chief Executive Officer. The Company operates in two reportable segments described below, defined by their primary type of service offering, namely Systems Engineering and Business and Technology Services.

- Systems Engineering involves planning, designing and implementing solutions that meet a customer's specific business and technical needs, primarily in the satellite communications sector.
- Business and Technology Services provides business and technology services and solutions to industry and government in the health, IT services, training, and engineering domains.

13. SEGMENTED INFORMATION (Continued)

The Company evaluates performance and allocates resources based on earnings before interest income and income taxes. The accounting policies of the segments are the same as those described in Note 2 – Summary of significant accounting policies to the consolidated financial statements for the year ended September 30, 2018.

Three months ended March 31, 2019	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	\$ 18,180	\$ 65,234	\$ -	\$ 83,414
Gross margin percentage	26.8%	18.6%	-	20.4%
Profit before interest income and income tax expense	1,460	5,471	(1,330)	5,601
Interest income & accretion (expense)				(214)
Income tax expense				(1,523)
Net profit for the period				\$ 3,864

Three months ended March 31, 2018 <i>Restated</i>	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	\$ 20,052	\$ 57,323	\$ -	\$ 77,375
Gross margin percentage	25.3%	17.0%	0.0%	19.1%
Profit before interest income and income tax expense	3,005	3,353	(995)	5,363
Interest income & accretion (expense)				42
Income tax expense				(1,480)
Net profit for the period				\$ 3,925

Six months ended March 31, 2019	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	\$ 36,448	\$ 126,887	\$ -	\$ 163,335
Gross margin percentage	24.9%	18.6%	-	20.0%
Profit before interest income and income tax expense	3,005	10,087	(2,579)	10,513
Interest income & accretion (expense)				(324)
Income tax expense				(2,970)
Net profit for the period				\$ 7,219
Equipment, application software and capitalized R&D expenditures	\$ 2,246	\$ 480	\$ -	\$ 2,726
Acquisitions	\$ 10,889	\$ 410	\$ -	\$ 11,299
Net assets other than cash and goodwill	\$ 29,386	\$ 39,823	\$ (18,360)	\$ 50,849
Goodwill	7,745	18,236	-	25,981
Cash	-	-	27,787	27,787
Total net assets	\$ 37,131	\$ 58,059	\$ 9,427	\$ 104,617

13. SEGMENTED INFORMATION (Continued)

	Systems Engineering	Business and Technology Services	Corporate	Total
Six months ended March 31, 2018 Restated				
Revenues	\$ 41,790	\$ 111,754	\$ -	\$ 153,544
Gross margin percentage	24.5%	17.3%	0.0%	19.2%
Profit before interest income and income tax expense	5,981	7,194	(2,031)	11,144
Interest income & accretion (expense)				89
Income tax expense				(3,175)
Net profit for the period				\$ 8,058
Equipment, application software and capitalized R&D expenditures	\$ 1,235	\$ 198	\$ -	\$ 1,433
Acquisitions	\$ -	\$ 166	\$ -	\$ 166

	Systems Engineering	Business and Technology Services	Corporate	Total
As at September 30, 2018 Restated				
Net assets other than cash and goodwill	\$ 23,286	\$ 36,541	\$ 145	\$ 59,972
Goodwill	-	18,236	-	18,236
Cash	-	-	21,842	21,842
Total net assets other than cash and goodwill	\$ 23,286	\$ 54,777	\$ 21,987	\$ 100,050

14. HEDGING*Foreign currency risk related to contracts*

The Company is exposed to foreign currency exchange fluctuations on its cash balance, accounts receivable, accounts payable and accrued liabilities and future cash flows related to contracts denominated in a foreign currency. Future cash flows will be realized over the life of the contracts. The Company utilizes derivative financial instruments, principally in the form of forward exchange contracts, in the management of its foreign currency exposures. The Company's objective is to manage and control exposures and secure the Company's profitability on existing contracts and therefore, the Company's policy is to hedge the majority of its foreign currency exposure. The Company does not utilize derivative financial instruments for trading or speculative purposes. The Company applies hedge accounting when appropriate documentation and effectiveness criteria are met.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific firm contractually related commitments on projects.

The Company also formally assesses, both at the hedge's inception and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge ineffectiveness has historically been insignificant.

14. HEDGING (Continued)

The forward foreign exchange contracts primarily require the Company to purchase or sell certain foreign currencies with or for Canadian dollars at contractual rates. At March 31, 2019, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value March 31, 2019
SELL	\$ 100,686	USD	April 2019	\$ 134,547	\$ 191
SELL	7,572	EURO	April 2019	11,360	89
SELL	368	CHF	April 2019	494	4
Derivative assets					\$ 284
BUY	\$ 57,929	USD	April 2019	\$ 77,411	\$ 110
BUY	1,423	EURO	April 2019	2,135	17
BUY	1,275	CHF	April 2019	1,711	13
Derivative liabilities					\$ 140

A 10% strengthening of the Canadian dollar against the following currencies at March 31, 2019 would have decreased other comprehensive income as related to the forward foreign exchange contracts by the amounts shown below.

	March 31, 2019
USD	\$ 5,194
EURO	839
CHF	(111)
	\$ 5,922

15. CONTINGENCIES

In the normal course of business, the Company is party to business and employee-related claims. The potential outcomes related to existing matters faced by the Company are not determinable at this time. The Company intends to defend these actions, and management believes that the resolution of these matters will not have a material adverse effect on the Company's financial condition.

16. ACQUISITION**Acquired intangible assets**

Acquired intangible assets are measured at cost less accumulated amortization. Amortization is recognized in net profit over the value derived from the underlying assets.

International Safety Research Inc. ("ISR")

ISR provides radiation and nuclear safety engineering, and emergency preparedness and response services to both government and private sector customers. ISR was acquired to expand the Company's emergency preparedness service offering and is reported as part of the Business and Technology Services operating segment.

On May 9, 2017, the Company acquired all of the outstanding shares of ISR for a purchase price of up to \$8,979. Of this amount, \$5,699 was paid on closing and \$3,280 is payable contingently.

16. ACQUISITION (Continued)

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of ISR an additional \$1,640 and \$1,640 if ISR attains specified levels of earnings before interest, taxes, depreciation and amortization ("EBITDA") for the years ending April 30, 2018 and 2019, respectively. During the year ended September 30, 2018 the Company paid the full \$1,640 related to the first year earn-out. In the six months to date, the Company has paid \$410 of the remaining balance for the achievement of one criteria related to the second year earn-out.

(D.T.) Secure Technologies International Inc. ("Secure Tech")

Secure Tech, a Canadian IT and cyber security firm based in Ottawa, Ontario provides cyber security solutions to a wide variety of customers. Secure Tech was acquired to expand the Company's information technology cyber offering and is reported as part of the Business and Technology ("BTS") operating segment.

On May 31, 2018, the Company acquired all of the outstanding shares of Secure Tech for a purchase price of up to \$4,188. Of this amount, \$2,400 was paid on closing, \$188 was paid upon settlement of final net equity and \$1,600 is payable contingently.

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of Secure Tech an additional \$800 and \$800 if Secure Tech attains specified levels of EBITDA for the years ending May 31, 2019 and 2020, respectively. At March 31, 2019, \$1,600 is included in contingent earn-out.

Priority One Workplace Health Inc. and William J Barker Clinical Psychologist Ltd. (together "Priority One")

Priority One provides specialized psychological assessment and selection services. Priority One was acquired to expand the Company's health care footprint and is reported as part of the Business and Technology ("BTS") operating segment.

On July 31, 2018, the Company acquired all of the outstanding shares of Priority One for a purchase price of \$1,128. Of this amount, \$850 was paid on closing and \$278 was paid upon settlement of net equity.

IntraGrain Technologies Inc. ("IntraGrain")

IntraGrain is the maker of the BIN-SENSE® grain storage solution. The technology combines Internet of Things (IoT) connectivity with bin sensors to protect grain quality and eliminate the risk of stored grain spoilage and is reported as part of the Systems Engineering Division ("SED") operating segment.

On November 1, 2018, the Company acquired all of the outstanding shares of IntraGrain for a purchase price of up to \$17,000. Of this amount, \$10,000 was paid on the date of closing, \$1,000 was placed in escrow, and \$6,000 is payable contingently.

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of IntraGrain an additional \$2,500 and \$3,500 if IntraGrain attains specified levels of EBITDA for the years ending October 31, 2019 and 2020, respectively. This contingent consideration is recognized at its present and risk adjusted value of \$4,689 at the date of acquisition and will be accreted to face value over the term of the earn out. To date, \$305 in accretion expense has been recognized.

16. ACQUISITION (Continued)

The following are the assets acquired and liabilities recognized at the date of the acquisition of IntraGrain:

Cash	\$	111
Accounts receivable and tax receivable		521
Prepaid expenses and other		54
Inventory		1,940
	\$	2,626
<hr/>		
Equipment	\$	541
Goodwill		7,745
Intangible assets		7,288
	\$	18,200
<hr/>		
Accounts payable and accrued liabilities	\$	581
Deferred tax liability		1,931
	\$	2,512
Net purchase price	\$	15,688
Discount on contingent consideration		1,312
Total purchase price	\$	17,000

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

18. SUBSEQUENT EVENTS

On April 1, 2019, the Company acquired Gesellschaft für Kommunikationssysteme mbH ("SatService"), for total cash considerations of approximately \$15,000 (10,000 EURO), of which \$9,810 (6,450 EURO) was paid on closing and \$5,325 (3,550 EURO) is contingent based on the attainment of specific EBITDA targets during the next 2 years.

Management Discussion and Analysis – March 31, 2019:

(Canadian dollars in thousands, except per share data)

This MD&A is the responsibility of management and has been reviewed and approved by the Board of Directors of the Company. This MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators. The Board of Directors is responsible for ensuring that we fulfill our responsibilities for financial reporting and is ultimately responsible for reviewing and approving the MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee.

IFRS and non-GAAP measures:

This MD&A contains both IFRS and non-GAAP measures. Non-GAAP measures are defined and reconciled to the most comparable IFRS measure.

RESULTS OF OPERATIONS

	Three months ended		Six months ended	
	March 31,	March 31,	March 31,	March 31,
	2019	2018	2019	2018
Revenues	\$ 83,414	\$ 77,375	\$ 163,335	\$ 153,544
Gross Margin	\$ 16,982	\$ 14,786	\$ 32,703	\$ 29,586
Operating Expenses	\$ 10,419	\$ 8,710	\$ 20,453	\$ 17,018
EBITDA	\$ 6,563	\$ 6,076	\$ 12,250	\$ 12,568

Revenues:

The general business environment in 2019 is strong in both divisions. The Company's healthy backlog and its recent acquisitions is expected to provide a solid year.

Systems Engineering's (SED) revenues were \$18,180 in the quarter and \$36,448 on a year-to-date representing a 9% and 13% decrease, respectively, when compared to the \$20,052 and \$41,790 recorded for the same periods in the previous year. Although the division continues to work with a solid backlog of contracts, some ground system contracts are still ramping up, resulting in lower revenues this year compared to the prior year's. Product sales continue to provide solid recurring revenues and interest continues to grow with some of our newer products with new customers entering the mix. SED's other business units continue to be busy in a range of activities including custom software development projects, and contract manufacturing for commercial and defence customers. As well, IntraGrain activities did not play a major role in revenues this quarter as the IntraGrain business is seasonal and most of its activities will be reflected in the third and fourth quarter.

Business and Technology Services (BTS) revenues were \$65,234 in the quarter and \$126,887 on a year-to-date basis representing 14% increases when compared to the \$57,323 and \$111,754 recorded for the same period in the previous year. During the quarter and year-to-date, the acquisitions account for 3% of the growth in the respective periods with the remainder achieved through organic growth. All service lines continue to show growth which is a result of strong delivery, and new customer wins.

Management expects that the marketplace for the near term will continue to be competitive and the timing of new contract awards is always difficult to predict. Our backlog provides a strong level of revenue assurance on existing contracts and new opportunities continue to arise. Although we continue to focus our efforts on the diversification of our customer base outside of government, the nature and extent of future government spending remain uncertain and therefore, future revenues in this sector will ultimately be determined by customer demand on existing contracts as well as the timing of future contract awards.

Gross margin

Gross margin in Systems Engineering was 26.8% in the second quarter of 2019 and 24.9% on a year-to-date basis compared to the 23.7% and 24.5% recorded for the same periods in the previous year. Gross margin in the quarter reflects solid execution across all business units. There are a number of projects ramping up, but resource utilization was a priority, and resulted in a positive margin

impact. Although the mix of revenues plays a significant role in the margin ultimately realized, product sales and excellent project execution helped the division maintain a solid level of margins.

Gross margin in Business and Technology Services was 18.6% for the three and six-month periods ending March 31, 2019 compared to the 18.7% and 17.3% recorded for the same periods in the previous year. The margin increase on a year to date basis is due to strong execution on ongoing contracts. The division continues to evolve its service offering with a goal to increase gross margins realized in the longer term.

Because of the significant difference in gross margin between each of the two divisions, the overall gross margin of the Company is dependent on the relative level of revenue generated from each division. Management will continue to focus on operational execution, diligent negotiation of supplier costs and expansion into new markets driving better margins in order to maximize margins. However, the competitive landscape is expected to maintain the pressure on margins in both divisions. The volatility of the Canadian dollar is always an influencing factor for margins on new work in the SED division when denominated in foreign currencies.

Operating expenses:

Operating costs increased over the prior year due to the inclusion of operating costs related to the Secure Tech, PriorityOne and IntraGrain acquisitions, continued focus on selling and marketing efforts and service line evolution capabilities, improvements and expansion of our facilities, the expensing of share-based compensation in addition to one-time costs in the second quarter only relating to the acquisition of SatService of \$600. Management will continue to challenge discretionary spending; however, continued prudent investments are required to support the evolution of the Company's service lines.

EBITDA ⁽¹⁾:

EBITDA ⁽¹⁾ increased in the second quarter when compared to the same period in the prior year due to an increase in sales volume and stronger margins, offset by increased operating expenses. On a year to date basis at March 31, 2019 EBITDA ⁽¹⁾ is slightly down when comparing to the same period in the previous year primarily due to timing and revenue mix in the SED division and the seasonality of our recent acquisitions.

Depreciation:

For the six month period ended March 31, 2019, depreciation was \$1,035 which is higher than the \$826 recorded in fiscal 2018 due to increased capital spending and assets acquired through acquisitions.

Amortization of intangibles:

For the six month period ended March 31, 2019, amortization of intangibles increased to \$702 when compared to \$598 in the same period of fiscal 2018. This increase is due to the acquisition of IntraGrain.

Accretion Expense:

For the year-to-date period ended March 31, 2019, accretion expense increased to \$379 when compared to the \$47 in the same period in the prior year. This increase is due to the acquisition of IntraGrain.

Income taxes:

The provision for income taxes was \$2,970 or 29.1% of earnings before tax compared to \$3,175 in 2018 or 28.3% of earnings before tax. The difference in effective tax rates is primarily due to the increase in non-tax-deductible items such as the acquisition interest accretion. The effective tax rate for 2019, prior to considering the impact of non-taxable transactions and adjustments to reflect actual tax provision as filed, is expected to be approximately 27.0%.

(1) See reconciliation regarding non-GAAP measures below

Net profit:

As a result of the foregoing, in the second quarter of 2019, the Company recorded net profit of \$3,864 or \$0.50 per share basic and \$0.49 diluted, compared to \$3,925 or \$0.51 per share basic and diluted in the same quarter of the prior year. For the six-month period ended March 31, 2019, the Company recorded net profit of \$7,219 or \$0.93 per share basic and \$0.92 per share diluted, compared to \$8,058 or \$1.06 per share basic and \$1.05 per share diluted in the same period of the prior year.

Reconciliation of non-GAAP measures to most comparable IFRS measures:

Management believes that providing certain non-GAAP performance measures, in addition to IFRS measures, provides users of the Company's financial reports with enhanced understanding of the Company's results and related trends and increases transparency and clarity into the core results of the business. EBITDA exclude items that do not reflect, in our opinion, the Company's core performance and helps users of our MD&A to better analyze our results, enabling comparability of our results from one period to another.

These non-GAAP measures are mainly derived from the interim consolidated financial statements, but do not have a standardized meaning prescribed by IFRS; therefore, others using these terms may calculate them differently. The exclusion of certain items from non-GAAP performance measures does not imply that these are necessarily non-recurring. From time to time, we may exclude additional items if we believe doing so would result in a more transparent and comparable disclosure. Other entities may define the above measures differently than we do. In those cases, it may be difficult to use similarly named non-GAAP measures of other entities to compare performance of those entities to the Company's performance.

	Second Quarter 2019	Second Quarter 2018 <i>Restated</i> (Note 2)	YTD 2019	YTD 2018 <i>Restated</i> (Note 2)
Reconciliation of EBITDA				
Net Profit	\$ 3,864	\$ 3,925	\$ 7,219	\$ 8,058
Depreciation	540	414	1,035	826
Amortization	422	299	702	598
Interest Expense (Income)	(23)	(65)	(55)	(135)
Accretion interest expense related to acquisitions	237	23	379	47
Income Tax Expense	1,523	1,480	2,970	3,175
EBITDA	\$ 6,563	\$ 6,076	\$ 12,250	\$ 12,568

BACKLOG

The Company's backlog at March 31, 2019 was \$1,355 million with terms extended to fiscal 2030. This compares to \$1,228 million reported at September 30, 2018. Contracted Backlog represents maximum potential revenues remaining to be earned on signed contracts, whereas Option Renewals represent customers' options to further extend existing contracts under similar terms and conditions.

Most fee for service contracts provide the customer with the ability to adjust the timing and level of effort throughout the contract life and as such the amount realized could be materially different from the original contract value. The following table represents management's best estimate of the backlog realization for 2019, 2020 and beyond based on management's current visibility into customers' existing requirements. Management's estimate of the realizable portion (current utilization rates and known customer requirements) is less than the total value of signed contracts and related options by approximately \$134 million. The Company's

policy is to reduce the reported contractual backlog once it receives confirmation from the customer that indicates the utilization of the full contract value may not materialize.

	<u>Remainder</u> <u>of Fiscal</u> <u>2019</u>	<u>Fiscal 2020</u>	<u>Beyond</u> <u>2020</u>	<u>Estimated</u> <u>realizable</u> <u>portion of</u> <u>Backlog</u>	<u>Excess over</u> <u>estimated</u> <u>realizable</u> <u>portion</u>	<u>TOTAL</u>
Contracted Backlog	\$ 134,729	\$ 211,213	\$ 152,886	\$ 498,828	\$ 102,046	\$ 600,874
Option Renewals	2,899	24,041	695,352	722,292	32,000	754,292
TOTAL	\$ 137,628	\$ 235,254	\$ 848,238	\$ 1,221,120	\$ 134,046	\$ 1,355,166
Business and Technology Services	\$ 101,253	\$ 160,213	\$ 815,005	\$ 1,076,471	\$ 134,046	\$ 1,210,517
Systems Engineering	36,375	75,041	33,233	144,649	-	144,649
TOTAL	\$ 137,628	\$ 235,254	\$ 848,238	\$ 1,221,120	\$ 134,046	\$ 1,355,166

FINANCIAL CONDITION AND CASHFLOWS

Operating activities:

Cash inflows from operating activities for the three-month period ended March 31, 2019 were \$4,201 compared to cash inflows of \$4,093 for the same period of 2018. Cash flows have been positively impacted by the decrease in accounts receivable offset by large payments made on accounts payable, purchases of inventory to meet seasonal demand, increases in unearned contract revenue, and increase in work in process asset. The aging of the accounts receivable remains in excellent health. These variations in cash flows are not considered unusual and reflect normal working capital fluctuations associated with the ebbs and flows of the business. The market for the Systems Engineering Division is characterized by contracts with billings tied to milestones achieved, which often results in significant working capital requirements. Conversely, given the nature of this business, it is sometimes possible to negotiate advance payments on contracts. Such advance payments give rise to unearned revenue that will be realized as revenue over the course of the contract. As at March 31, 2019, the Company's total unearned revenue amounted to \$8,034 compared to \$10,042 at September 30, 2018.

Financing activities:

During the three-month period ended March 31, 2019 (2018), the Company paid dividends of \$0.28 (\$0.28 per share), and \$0.56 (\$0.56) per share on a year to date basis. The Company intends to continue with its quarterly dividend policy for the foreseeable future.

During the six-month period ending March 31, 2019, the Company utilized its short-term credit facility and held a balance of \$17,000, \$5,000 of which was drawn in Q2 compared to NIL in same period of the previous year. The additional draw was to support the payment of \$9.8M on April 1, 2019 related to the acquisition of SatService.

Investing activities:

During the three-month period ended March 31, 2019, the Company invested \$1,312 in capital assets compared to the \$503 in the same period in the prior year. During the six-month period ended March 31, 2019, the Company invested \$1,705 in capital assets when compared to \$1,016 in the same period in the prior year, in addition to the \$1,023 invested in capitalized R&D compared to the \$420 in the previous year. The increase is attributable to additional manufacturing equipment purchased at SED and the move to the new Calian head office in Ottawa.

The Company also acquired IntraGrain resulting in cash outflows of \$11,000 as explained in Note 16 to the financial statements.

Capital resources:

At March 31, 2019 the Company had a short-term credit facility of \$40,000 with a Canadian chartered bank that bears interest at prime and is secured by assets of the Company. The Company has drawn \$17,000 against the credit facility and an amount of \$50 was used to issue a letter of credit to meet customer contractual requirements. Management believes that Calian has sufficient cash resources to continue to finance its working capital requirements and pay a quarterly dividend.

ADOPTION OF NEW ACCOUNTING RULES AND IMPACT ON FINANCIAL RESULTS

In the current Quarter the Company adopted IFRS 9 Financial Instruments, and IFRS 15 Contracts with Customers. The accounting policies and impacts to the financial statements are expressed in note 2 to the financial statements.

SELECTED QUARTERLY FINANCIAL DATA

	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17
			<i>Restated</i>	<i>Restated</i>	<i>Restated</i>	<i>Restated</i>		
			<i>(Note 2)</i>	<i>(Note 2)</i>	<i>(Note 2)</i>	<i>(Note 2)</i>		
REVENUES	\$ 83,414	\$ 79,921	\$ 78,535	\$ 72,989	\$ 77,375	\$ 76,169	\$ 72,321	\$ 67,332
EBITDA ⁽¹⁾	\$ 6,563	\$ 5,687	\$ 6,703	\$ 6,064	\$ 6,076	\$ 6,492	\$ 6,572	\$ 5,504
Net profit	\$ 3,864	\$ 3,355	\$ 4,336	\$ 3,897	\$ 3,925	\$ 4,179	\$ 4,327	\$ 3,498
EBITDA per share								
Basic	\$ 0.84	\$ 0.73	\$ 0.86	\$ 0.78	\$ 0.79	\$ 0.85	\$ 0.86	\$ 0.72
Diluted	\$ 0.84	\$ 0.73	\$ 0.86	\$ 0.78	\$ 0.78	\$ 0.84	\$ 0.85	\$ 0.72
Net profit per share								
Basic	\$ 0.50	\$ 0.43	\$ 0.57	\$ 0.51	\$ 0.51	\$ 0.54	\$ 0.57	\$ 0.46
Diluted	\$ 0.49	\$ 0.43	\$ 0.56	\$ 0.50	\$ 0.51	\$ 0.54	\$ 0.56	\$ 0.45

SEASONALITY

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. The Company's revenues and earnings have historically been subject to some quarterly seasonality due to the timing of vacation periods, statutory holidays, industry specific seasonal cycles and the timing and delivery of milestones for significant projects. IntraGrain and Secure Tech, two recent acquisitions generate a significant portion of their revenues during the second, third and fourth quarter of the Company's fiscal year.

Management is confident that the Company is well positioned for sustained growth in the long term. The Company's strong contract backlog provides a solid base for the realization of future revenues. Leveraging the Company's diverse services offerings; the Company operates in global and domestic markets that will continue to require the services that the Company offers. To ensure the Company is positioned to respond to market requirements, the Company will focus on the execution of its four-pillar growth strategy:

- Customer retention: through continued delivery excellence, maintain a valued relationship with current customer base;
- Customer diversification: through increasing the percentage of its revenues derived from new business in adjacent and non-government markets, balance customer revenue into numerous global and domestic sectors;
- Service Line Evolution: continue investment in service offerings to increase differentiation and improve gross margin attainment;
- Continuous Improvement: leverage innovation to improve how the company operates with a goal to streamline processes and provide for a scalable back office support capability.

The company has completed seven acquisitions in the past 6 years and will proactively look for companies that can accelerate its growth strategy with a focus on customer diversification and service line evolution.

Calian's SED Division has been working within a sustainable satellite sector and is expecting opportunities to continue to arise as systems adopting the latest technologies will be required by customers wishing to maintain and improve their service offerings and react to an increasing demand for bandwidth. SED continues to invest in communications products, software development and manufacturing equipment to strengthen its competitive position and is diversifying its customer base in the agriculture, cable and defence sectors. In the short-term, activity levels in custom manufacturing will continue to be directly dependent upon SED's customers' requirements and continuing volatility in orders is anticipated as both government and commercial customers continue to re-examine their traditional spending patterns. Any delays, deferrals and cancellations of DND capital procurements will create intense competition for available manufacturing work. Finally, changes in the relative value of the Canadian dollar may negatively or positively impact the Systems Engineering Division's competitiveness on projects denominated in foreign currencies.

The BTS Division's professional services are adaptable to many different markets. Currently, its strength lies in providing professional services, solutions, and delivery services across Canada with a significant portion of this work currently with the Department of National Defence. The division continues to be successful in diversifying its customer base and evolving its service offerings. As an example, the division now provides emergency management engineering services in the nuclear sector as well as onsite health practitioners in the oil and gas sector. Management believes that for the long term, the public and private sector will continue to require health, IT, training and engineering services from private enterprise to achieve their business outcomes. Looking at the current outlook, the federal government continues to spend on priority programs and while there is general uncertainty as to the extent of demand from this customer, at least in the short-term spending seems to have stabilized. With recent investments in sales, marketing, acquisitions and success in new markets outside of the federal government, the division is better positioned to manage through any potential government spending downturns. Recent acquisitions have also bolstered the division's performance and it is expected that overall, the acquired companies will continue to meet and exceed the financial targets established as part of the acquisitions.

GUIDANCE

Traditional markets in which Calian operates are stable and management expects organic revenue and earnings growth in most or all of its service lines through the successful execution of our growth strategy. However, we must caution that revenues realized are ultimately dependent on the extent and timing of future contract awards as well as customer utilization of existing contracting vehicles. Based on currently available information and our assessment of the marketplace, we expect revenues for fiscal 2019 to be in the range of \$330 million to \$360 million, EBITDA per share in the range of \$3.60 to \$3.90 and net profit in the range of \$2.05 to \$2.35 per share.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent interim quarter ended March 31, 2019, the Company adopted additional controls to ensure contracts are recognized under IFRS 15 appropriately. These additional controls entail review of contracts to ensure proper recognition. There have been no other changes in the design of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

FORWARD-LOOKING STATEMENT

Certain information included in this press release is forward-looking and is subject to important risks and uncertainties. The results or events predicted in these statements may differ materially from actual results or events. Such statements are generally accompanied by words such as "intend", "anticipate", "believe", "estimate", "expect" or similar statements. Factors which could cause results or events to differ from current expectations include, among other things: the impact of price competition; the dependence on new product development; the impact of rapid technological and market change; the ability of Calian to integrate the operations and technologies of acquired businesses in an effective manner; general industry and market conditions and growth rates; international growth and global economic conditions, particularly in emerging markets and including interest rate and currency exchange rate fluctuations; and the impact of consolidations in the business services industry. Additional risks and uncertainties affecting Calian can be found in Management's Discussion and Analysis of Results of Operations and its Annual Information Form for the fiscal year ended September 30, 2018 on SEDAR at www.sedar.com. If any of these risks or uncertainties were to materialize, or if the factors and assumptions underlying the forward-looking information were to prove incorrect, actual results could vary materially from those that are expressed or implied by the forward-looking information contained herein and our current objectives or strategies may change. Calian disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. No assurance can be given that actual results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

Date: May 14, 2019